

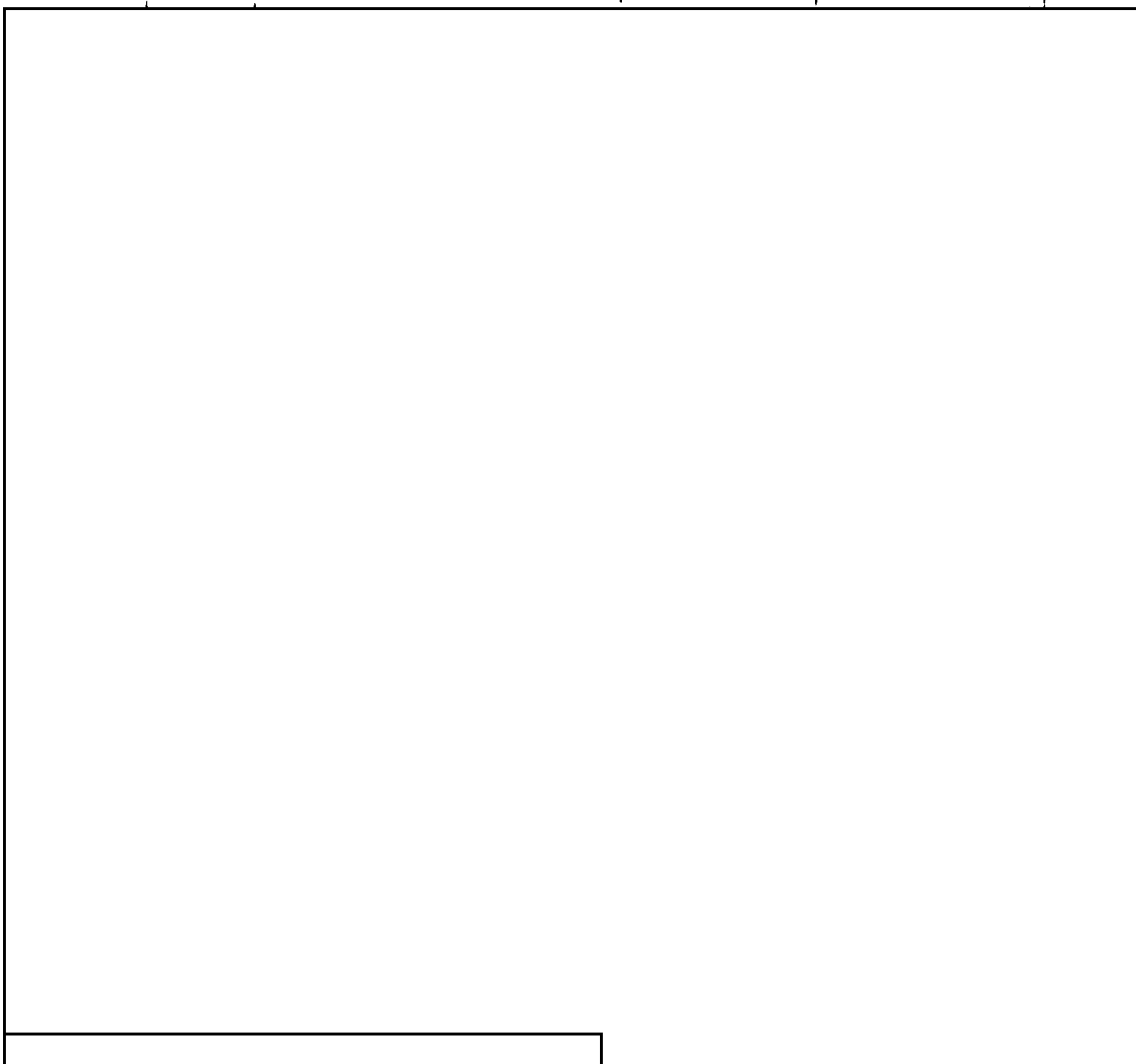
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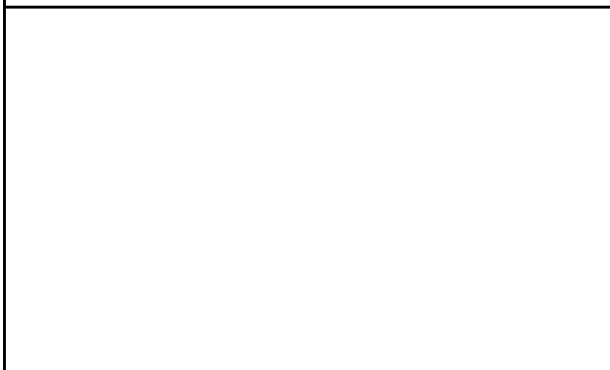
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#### IV. DEFENSE SPENDING

57. Pakistan's military budget has grown 55 percent since FY 1972, but there has been little change in real terms.<sup>6</sup> Allocations for fuel, transport, construction, salaries and other personnel costs have

<sup>6</sup>With domestic expenditures accounting for about 70 percent of the defense budget, the latter has been greatly affected by domestic inflation. Since FY 1972, Pakistan's wholesale price index has risen 67 percent. Price increases of domestic goods and services purchased by the military have been somewhat less than those reflected in the wholesale price index.

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been taking an increasing share of the budget, while the proportion allocated for weapons has declined.

Year *	Budgeted Military Expenditures *	Percent of National Budget
1971 .....	334.4	32
1972 .....	390.4	36
1973 .....	472.7	37
1974 .....	515.6	30
1975 *	600.6	31

\* Fiscal year ending 30 June of stated year.

\* Million US dollars, converted at 9.9 rupees equal \$1.00 US. Includes civilian and meteorological allocations, which for 1975 total \$18 million.

\* Preliminary—actual spending will probably be revised upward because of inflation.

58. We know of no important allocations for arms or other military equipment that are hidden in the budget. A few military-related expenditures, however, are not reported as defense spending. For example, the Ministry of Interior budget reflects civil defense activities such as bomb disposal and civil defense academies. Budgets of other agencies include funds for dual purpose construction projects such as roads. The purchase of food grains for the military at subsidized prices also introduces a slight understatement of the defense budget. On the other hand, the inclusion in the defense budget for administration of civil projects such as civil aviation and meteorology inflate it.<sup>7</sup>

#### Foreign Exchange Position

59. Pakistan's foreign exchange outlays for defense imports during FY 1971-1973 ranged from \$53 to 151 million a year, about 12 to 18 percent of export earnings. Outlays for FY 1974 were probably relatively less because of the surging petroleum import bill and increasing costs of other essential imports. Net oil imports cost \$222 million, nearly four times the preceding year's \$57 million.

<sup>7</sup> See Appendix III for a tabular summary of Pakistan's budgeted military expenditures for FY 1971-1975.

The result was a trade deficit of around \$420 million. Other transactions resulted in a payments deficit of \$615 million, which was partially covered by aid. The resulting reserve drawdown for FY 1974 is estimated at \$184 million as shown in the following tabulation.

TABLE VII  
PAKISTAN'S BALANCE OF PAYMENTS  
FY 1974

	(Million US\$)
Imports .....	1,450
Debt payments to creditors .....	197
<b>TOTAL</b> .....	<b>1,647</b>
Exports .....	1,030
Invisible income and private capital transfers ...	2
<b>TOTAL</b> .....	<b>1,032</b>
<b>Balance of Payments Deficit</b> .....	<b>615</b>
<b>Deficit Financed By:</b>	
Foreign aid .....	431
Reserve drawdown and short-term borrowings .....	184

60. The outlook for FY 1975 is for mounting inflation and further increases in import costs. At the same time, prices and demand for some of Pakistan's key exports are declining. The balance-of-payments deficit, therefore, seems likely to increase, probably to about \$700 million. As of October 31, 1974, foreign exchange reserves totaled \$500 million.

#### Foreign Aid

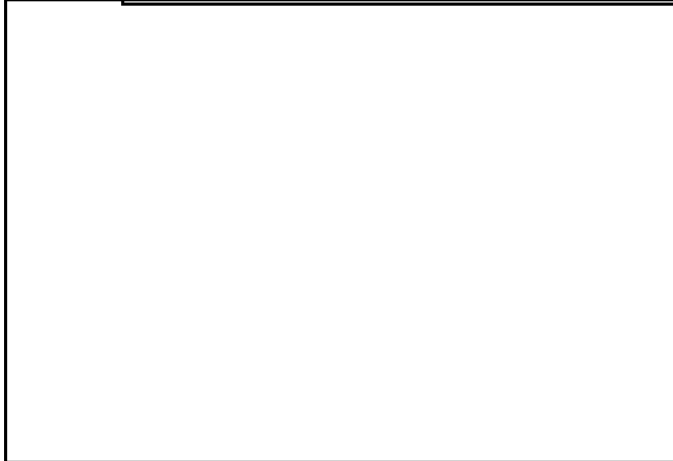
61. A prospective increase in foreign aid requirements for FY 1975 will be more than offset by recent aid arrangements. The World Bank Consortium on Pakistan has pledged nearly \$500 million in aid for FY 1975. The Consortium also rescheduled \$650 million in debt repayments over a four-year period and relieved Pakistan of about \$400 million

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of indebtedness for aid projects located in Bangladesh.



total export earnings. On this basis, and with the addition of foreign aid already offered, we judge that Pakistan could probably support annual military imports of no more than some \$250 million for the next few years. This would be a substantial increase over the \$151 million spent in FY 1973. If Pakistan's economic difficulties worsen significantly and if the prices and demand for Pakistan's principal exports continue to decline, it would be very difficult for Islamabad to devote \$250 million to military imports in any given year. On the other hand, the favorable foreign aid outlook for Pakistan is a counterbalancing factor. To the extent that Islamabad so chooses to orient its priorities, it can devote a substantial portion of the aid it receives to military purchases. In sum, our estimate that Pakistan could afford military imports of up to \$250 million annually is rough, but it is the right order of magnitude.

62. Pakistan's military import expenditures in FY 1971-1973 ranged between 12 and 18 percent of

